



Global Fixed Income Outlook & Strategy

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Market Recap & Outlook

The US dollar bear market is taking an autumn sabbatical. Maybe it will resume after the US federal government shutdown ends, but for now DXY is staging a convincing rebound. We believe US exceptionalism is back, if it ever left. The S&P 500 and NASDAQ equity indices set new highs in late October, just before the Federal Reserve cut policy rates by the expected 25bp. Fed commentary was more hawkish than markets had expected, though.

Fed caution seems reasonable given poor visibility on current US inflation trends, in our view. Private sector high frequency measures such as Truflation has remained benign, but the ISM Prices Paid measure for October was high, and this measure has been a good predictor of core inflation in the past. The 10-year Treasury backed up to 4.15% and the probability of a December cut declined.

US economic growth is univariate, in our view. AI-focused tech capital expenditures represent nearly all the growth in private capital spending this year, while tech stock-driven wealth effects have kept high net worth US consumers in a positive mood. At the same time, the subprime economy appears to be recessionary, in our view. Part of this weakness can be explained by the required resumption of student loan payments, but other factors may also be important, including higher rents, local taxes and home and auto insurance charges for families on essentially fixed incomes. What seems to be missing is any material wage gain for current employees from the cutoff of competing lower skilled migrants. The labor market does not seem to be either tightening or softening, but drifts in a low hire, low fire equilibrium. The US economy remains K-shaped, with stress at the bottom and abundance at the top.

We are not sure what letter describes the Eurozone economy unless it is the letter I on its side. Of the big four E-zone economies, only Spain is expected to grow by more than 1% in 2025. Mooted German defense and public works spending is still a coming attraction, not yet in theaters. As hope springs eternal, and growth forecasts for 2026 are higher, we expect

the European Central Bank to remain on hold for the remainder of the year.

Global equity markets are also arguably univariate, as the US comprises nearly one half of total global equity market capitalization. As US equities are dominated by tech hyper-scalers, this is a one industry asset now.

Our Strategy

We believe the obvious risk for global investors is a US tech bust. In this case, we believe bonds will outperform, and we would expect non-USD bonds to outperform more in a USD bear market. We would expect foreign capital to run away from a US equity meltdown, not towards it. This might be frightening, but perhaps no less frightening than investors having to choose between the relative value propositions of electric vehicles and China's robot armies.

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